



Newsletter

Thanks to Our Lender and School Partners

by Lori Powers

In a September 29 presentation to KHEAA's Board of Directors, Chief Operating Officer Londa L. Wolanin reported a great deal of good news regarding student aid activities. She noted the important role KHEAA's school and lender partners played in getting aid delivered to students.

Guarantee volume increased 30.9 percent for FY2000 over FY1999, growing from \$334 million to \$450 million; and the trend for the first quarter of FY2001 shows a continuing increase over the previous fiscal year.

Two trends have driven the increase—general growth and movement of schools from the Federal Direct Student Loan Program to the Federal Family Education Loan Program (FFELP).

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Inserts:

- *Common Manual* Updates
References #356, 454, 455, and 456

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Default claims were down approximately \$10 million (28.5 percent reduction) during the federal fiscal year (FFY), which began October 1, 1999, and ended September 30, 2000. Reasons for the drop include the strong economy, a change in the definition of the time at which a loan goes into default, and default prevention and aversion activities on the part of schools, lenders, and KHEAA.

Default recoveries increased 45.5 percent, going from \$29.5 million in FFY1999 to \$43 million in FFY2000. The FFY2000 annual rate of recovery was 19.7 percent, well above the U.S. Department of Education (USDE) target rate of 15.1 percent for guarantee agencies and approximately 5 percent higher than the prior year.

KHEAA's annual reinsurance rate was 1.43 percent. The USDE pays maximum reinsurance to the guarantor for rates below 5 percent.

The dollar volume of loans originated and disbursed by KHEAA on behalf of lenders increased by 42 percent during FY2000. Currently, 17 lenders are participating in this service.

Significantly more students were eligible for College Access Program (CAP) awards this year. Students having an expected family contribution (EFC) of 3100 or less were eligible for the latest awards. In prior years, only students whose EFC was 1500 or less were eligible. In addition, the maximum CAP award was increased to \$1,200, while the maximum Kentucky Tuition Grant (KTG) award was increased to \$1,600. CAP Grant offers were made to 46,800 students. KTG offers were made to 14,000 students. KHEAA anticipates a record \$48.6 million in state grant funds will be disbursed this academic year.

The new Kentucky Educational Excellence Scholarship (KEES) program provided over \$8.3 million in its first year of awards to postsecondary students. Initial and renewal awards for this academic year are expected to near \$20 million.

College Aid Calculator Added to KHEAA Web Site

by David Rayborn

KHEAA recently added another helpful tool to further enhance our Web site. The College Aid Calculator (CAC) is an interactive feature that can help families estimate how much they will be expected to pay toward college costs and how much they can expect to receive in financial aid.

After accessing www.kheaa.com and clicking on "College Aid Calculator," the users enter their income and asset data. The CAC will then:

- Estimate their EFC. The EFC is based on the parents' and student's incomes and assets.
- Project an inflation-adjusted EFC for any given number of years into the future.
- Show how certain occurrences (i.e., inheritance, bonus, moving, etc.) may affect the EFC.
- Compute education loan payments for Stafford, PLUS, Perkins, and alternative loans.

No identifying information, such as a Social Security number, is required; and the information is automatically deleted when the user exits the CAC. As pointed out on the Web site, the CAC provides only an estimated EFC since the actual EFC is determined when the student completes the Free Application for Federal Student Aid (FAFSA).

Four Lenders Select KHEAA for Loan Origination and Disbursement Services

by Mary Alice Wilkinson

We are pleased to announce Fifth Third Bank, Evansville, Indiana; L & N Federal Credit Union, Louisville, Kentucky; Old National Bank, Evansville, Indiana; and Wells Fargo Education Financial Services, Sioux Falls, South Dakota, have chosen KHEAA to provide Federal Stafford and PLUS Loan origination and disbursement services on their behalf. Borrowers and schools should mail all Stafford Master Promissory Notes and school certifications, as well as PLUS Application/Promissory Notes, to the following addresses:

Fifth Third Bank (formerly Civitas Bank)
P.O. Box 4868
Frankfort, KY 40604-4868
Lender # 803408

L & N Federal Credit Union
P.O. Box 4878
Frankfort, KY 40604-4878
Lender # 829998

Old National Bank
P.O. Box 4888
Frankfort, KY 40604-4888
Lender # 803694

Wells Fargo Education Financial Services
P.O. Box 4898
Frankfort, KY 40604-4898
Lender # 807176

During the transition of these services, schools should return any undelivered loan proceeds to the entity issuing them. KHEAA began originating and disbursing loans on September 15, 2000, for Fifth Third Bank, L & N Federal Credit Union, and Old National Bank. Education Financial Services (EFS) in Indianapolis, Indiana, services these loans. KHEAA began originating and disbursing loans on September 25, 2000, for Wells Fargo, which services its own loans.

Schools may contact EFS in Indianapolis, Indiana, at (800) 552-7927 and borrowers may contact EFS at (800) 635-1867 for information about the transition of these services. Schools and borrowers may contact Wells Fargo Education Financial Services at (800) 658-3567. The public may also contact KHEAA's Origination Services Branch at (800) 564-6068.

Following are the addresses to which Stafford Master Promissory Notes and PLUS Application/Promissory Notes should be mailed for lenders participating in the KHEAA Loan Origination and Disbursement Services.

Bank of Louisville
P.O. Box 4310
Frankfort, KY 40604-4310
Lender # 804283

Bank One Education Finance Group
P.O. Box 4230
Frankfort, KY 40604-4230
Lender # 821087

Chase Manhattan Bank
P.O. Box 4267
Frankfort, KY 40604-4267
Lender # 807807

edsouth
P.O. Box 4270
Frankfort, KY 40604-4270
Lender # 831453

Fifth Third Bank
P.O. Box 4190
Frankfort, KY 40604-4190
Lender # 808780

Firststar Bank
P.O. Box 4206
Frankfort, KY 40604-4206
Lender # 808628

Kentucky Higher Education Student Loan
Corporation/The Student Loan People
P.O. Box 4250
Frankfort, KY 40604-4250
Lender # 826688

National City Bank
P.O. Box 4266
Frankfort, KY 40604-4266
Lender # 804959

PNC Bank, NA
P.O. Box 4170
Frankfort, KY 40604-4170
Lender # 809921

The Provident Bank
P.O. Box 4228
Frankfort, KY 40604-4228
Lender # 808923

Republic Bank (medical and dental
graduate students only)
P.O. Box 4593
Frankfort, KY 40604-4593
Lender # 828617

Student Loan Funding
P.O. Box 4594
Frankfort, KY 40604-4594
Lender # 831455

Union Planters National Bank
P.O. Box 4125
Frankfort, KY 40604-4125
Lender # 810698

The Origination Services Branch also provides electronic funds transfer (EFT) disbursement services on behalf of lenders who execute an agreement with KHEAA. The lenders participating in these services are:

Lender Name	Lender Number
SouthTrust Bank	800023
SouthTrust Bank (LLR)	800029
SunTrust Bank	800061
Whitney Bank	800062 and 805148
Merchants Bank	800096
Regions Bank	800097
Bancorp South	806627
Citibank	807743
ASAP/Union Bank & Trust Co.	808543
First Farmers/Merchants National Bank	810617
Bank of America/MOHELA	818334
First National Bank of Talladega	819341
Union Bank & Trust Co.	823964
ClassNotes, Inc. d/b/a Educaid	830005
College Board/College Credit	830310
AMS Education Loan Trust	
Fleet National Bank as Trustee	833079
American Express	833289
Bank One as Trustee for EFG, Inc.	833471
College Loan Corporation/Bank One	833733

Corrections to the *Common Manual*

by David Rayborn

Two corrections relating to the new 270-day delinquency period that should have been included in the 2000 update of the *Common Manual* were overlooked in that recent revision. These corrections will be made in the 2001 update; however, due to the significance of the errors, the *Common Manual* has requested guarantors to make the financial aid community aware of these changes immediately.

The first change is to subsection ^{cc}18.3.B., page 36, column 2, caret under "Claim Form." The change is as follows:

- ▲ Contact your guarantor for more information regarding procedures for documenting the requisite ~~180~~ 270-day delinquency period. See section 1.5 for contact information.

The second change is to subsection ^{cc}18.8.D., page 48, column 2, bullet 1. The change is as follows:

- A default claim by the ~~270~~ 360th day of delinquency. [§682.406(a)(5)]

Guarantee Operations Spotlight

by Robin Buchholz

KHEAA sent letters to schools and lenders in August explaining the recent enhancements made to KLASsm. These new and enhanced processes include a new and improved Stafford Application Detail screen, additional functionality through the School Detail screen for setting default values for school certification data, and an improved serial guarantee process. In addition, two other items of interest include:

- **Online Maintenance Processing for Schools**

Schools that access KLASsm now have the ability to perform disbursement maintenance updates online in a real-time mode. With the new online maintenance process, schools can cancel, partially cancel, refund, and increase loans. Schools can do maintenance on pre- and post-guaranteed loans, as well as pre- and post-disbursement.

Any pre-disbursement changes will be updated immediately on KLASsm. Pre-disbursement changes can be made until 2:30 p.m. Eastern time, two days prior to the scheduled disbursement date. For example, changes can be made until 2:30 p.m. on Monday for disbursements scheduled for Wednesday. Changes that are made post-disbursement with monetary impact are put into a pending status until the funds are received from the school. When the corresponding funds are received at KHEAA, the pending status will be removed and KLASsm will be updated with the maintenance information.

- **Loan Maintenance Reports**

New loan maintenance reports have been created for both schools and lenders. These reports detail all pre- and post-disbursement changes and are produced daily. The reports are broken down pre- and post-disbursement by type of maintenance. Cancellations, refunds, reinstatements, and increases are listed separately. The lender reports include a Funds Returned Report that is used in conjunction with the return of funds to the lender. These reports are available to schools via KHEAA's Web site. At this time, lender reports are mailed.

If you have questions or want additional information regarding any of these enhancements, please call the Guarantee Operations school and lender hot line at (800) 617-2699.

Changes to Loan Status Codes

by Teree Nethery

The USDE released Technical Update GA-2000-05 on June 30, 2000, advising guarantors of the intent to modify the loan status codes for National Student Loan Data System (NSLDS) reporting. While this may seem like a guarantor issue because it has been presented as a GA update, it will also affect lenders because the lenders set many of the loan statuses as they report monthly or quarterly via NSLDS lender manifest. The Technical Update warns, "These changes may require significant system changes."

Loan status codes are used to communicate the current status of a loan; examples include RP (in repayment), DA (deferred), and FB (in forbearance). Loan status codes are used to help determine default rates and student eligibility. These codes have remained the same since NSLDS implementation in October 1994. The new codes will directly impact what lenders report to guarantee agencies. The new or revised codes that impact lenders are DA (Deferred), IA (Loan Originated), IG (In Grace Period), IM (In Military Grace), PN (Non-defaulted, Paid in Full Through Consolidation), and RP (In Repayment). Status codes ID (In School or Grace) and PC (Paid in Full Through Consolidation) will no longer be used.

NSLDS expects to begin accepting these new codes January 1, 2001, with full implementation by July 1, 2001. After July 1, 2001, all data providers must use the new codes exclusively. Lender reporting mechanisms must be modified to allow for the new codes. This will require modifications to Common Account Maintenance (CAM) Record Type 15 (Loan Status Change) and possibly NSLDS lender manifest for those lenders that do not expect to be CAM-compliant by July 1, 2001. KHEAA asks lenders and servicers to advise us of their plans for reporting these new codes, especially if they do not expect to be able to report through CAM.

KHEAA has begun the process of reviewing new loan statuses and is approaching the project in two phases. Phase I is primarily dealing with lender-reported codes. We expect to be able to accept the new codes from lenders by January 1, 2001. Phase II will involve the remaining codes and is to be completed on or before July 1, 2001.

For more information on the Technical Update (GA-2000-05) or to obtain a copy of the new Data Provider Instructions on loan statuses from NSLDS, you can access the Technical Update through the USDE's Information for Financial Aid Professionals (IFAP) Web site at

www.ifap.ed.gov or call Teree Nethery at (502) 696-7249 or Wilma May at (502) 696-7242.

NSLDS Data Integrity

by Wilma May

The USDE Office of Student Financial Assistance (SFA) Programs has provided guarantee agencies an NSLDS Data Integrity Alert. The alert is meant to provide guarantee agencies with information to assist them in improving data integrity in NSLDS. The NSLDS Data Integrity Improvement Plan received by KHEAA targets data integrity issues unique to KHEAA reporting.

Two of the data integrity issues that appear on this report are items that are lender-reporting issues. KHEAA will be working with lenders or their designated servicers on these issues:

- **Noncurrent balances on lender-held loans**
Nationwide the percentage of lender-held loans with current outstanding principal balances is 88.3 percent. KHEAA's figure is comparable at 88.8 percent. However, 74,289 loans still show non-current balances. Lenders are responsible for reporting current balances on all outstanding loans at least quarterly. Just as a reminder, the date of outstanding balance for principal and interest, reported by the lender, should be the effective date of the reporting, not the last date the principal balance changed. Accordingly, lenders should report the end of the month or quarter of the reporting period as the effective date, even if the balance has not changed since the previous reporting.
- **Underlying loans for Consolidation Loans (CL) not coded as PC**
NSLDS determines probable underlying loans for CL as any loan to the CL borrower with a date of loan status within plus or minus 210 days of the date of guarantee of the Consolidation Loan. NSLDS has identified over 10,000 loans meeting this condition that appear to be coded incorrectly. They are either coded as PF rather than PC or remain in an open status when they should potentially be coded PC. KHEAA will work with NSLDS to identify these loans by lender. Lenders will be asked to review their respective lists to determine if reporting problems exist.

Lenders are reminded that they must submit NSLDS Lender Manifest data at least quarterly. In order to ensure accurate information on NSLDS, guarantors must receive complete and timely updates from lenders. KHEAA should receive NSLDS information no later than 45 days after the end of the quarter. KHEAA is also ready to accept NSLDS-type lender reporting via CAM records. Entities that wish to test CAM reporting with KHEAA should contact Reba Scott at (502) 696-7241.

KHEAA sent its Unreported Loans Report the second week of September. Lenders are asked to review the loans on their respective report or file to ensure KHEAA is provided status and reconciliation information on each loan. Any questions regarding this report or NSLDS Lender Manifest reporting should be directed to Wilma May at (502) 696-7242 or (800) 928-8926, extension 7242.

Common Manual Updates

by David Rayborn

This edition of the *KHEAA Newsletter* includes recent *Common Manual* policy updates. These inserts include reference numbers 356, 454, 455, and 456.

If you have questions regarding these updates or need additional copies, call the Policy and Client Services Branch at (502) 696-7274 or (800) 928- 8926, extension 7274.

Special Allowance Rates

for the quarter ending September 30, 2000

The average of the bond equivalent rates of the 91-day Treasury bills auctioned during the quarter ending September 30, 2000, is 6.19 percent. Loans from the following categories are eligible for special allowance as shown for the quarter ending September 30, 2000.

For loans made prior to 10/1/81:

Applicable Annual Interest Rate	Special Allowance at Annual Rate	Special Allowance for 3-Month Period
7%	.0275	.006875
9%	.0075	.001875

- For:
- Federal Stafford Loans (subsidized) and fixed-rate Federal PLUS Loans made on or after 10/1/81 but prior to 10/17/86.
 - Federal Stafford Loans (subsidized) and fixed-rate Federal PLUS Loans made on or after 10/17/86 but prior to 11/16/86 for periods of enrollment beginning prior to 11/16/86.
 - Federal Consolidation Loans made on or after 10/1/81 but prior to 11/16/86.

Applicable Annual Interest Rate	Special Allowance at Annual Rate	Special Allowance for 3-Month Period
7%	.0269	.006725
8%	.0169	.004225
9%	.0069	.001725
12%	.0000	.000000
14%	.0000	.000000

- For:
- Federal Stafford Loans (subsidized) and fixed-rate Federal PLUS/SLS Loans made on or after 10/17/86 but prior to 11/16/86 for periods of enrollment beginning on or after 11/16/86.
 - Federal Stafford Loans (subsidized) made on or after 11/16/86 but prior to 10/1/92.
 - Federal Stafford Loans (unsubsidized, made pursuant to §428H of the Act) made prior to 10/1/92 for periods of enrollment beginning on or after 10/1/92.
 - Fixed-rate Federal PLUS/SLS Loans made on or after 11/16/86 but prior to 7/1/87.
 - Variable-rate Federal PLUS/SLS Loans made on or after 7/1/87 but prior to 10/1/92, *only* if the variable rate for each July 1–June 30 period reaches the statutory maximum of 12%.
 - Federal Consolidation Loans made on or after 11/16/86 but prior to 10/1/92.

Applicable Annual Interest Rate	Special Allowance at Annual Rate	Special Allowance for 3-Month Period
7.00%	.0244	.006100
8.00%	.0144	.003600
8.99%	.0045	.001125
9.00%	.0044	.001100
9.14%	.0030	.000750
10.00%	.0000	.000000
11.00%	.0000	.000000
12.00%	.0000	.000000
13.00%	.0000	.000000
14.00%	.0000	.000000

- For:
- Federal Stafford Loans (subsidized) made on or after 10/1/92 but prior to 7/1/95.
 - Federal Stafford Loans (unsubsidized) made on or after 10/1/92 but prior to 7/1/95 for periods of enrollment beginning on or after 10/1/92.
 - Federal Stafford Loans (subsidized and unsubsidized) made on or after 7/1/95 but prior to 7/1/98, *except* during the in-school, grace, and deferment periods.
 - Variable-rate Federal PLUS/SLS Loans made on or after 10/1/92 but prior to 7/1/94, *only* if the variable rate for each July 1–June 30 period reaches the statutory maximum of 11% (SLS) or 10% (PLUS).
 - Variable-rate Federal PLUS Loans made on or after 7/1/94 but prior to 7/1/98.
 - Variable-rate Federal PLUS Loans made on or after 7/1/98 but prior to 1/1/00 (special allowance shall not be paid unless the calculated interest rate exceeds the 9% cap).
 - Federal Consolidation Loans made on or after 10/1/92 but prior to 1/1/00.

Applicable Annual Interest Rate	Special Allowance at Annual Rate	Special Allowance for 3-Month Period
6.00%	.0329	.008225
7.00%	.0229	.005725
8.00%	.0129	.003225
8.25%	.0104	.002600
8.99%	.0030	.000750
9.00%	.0029	.000725
10.00%	.0000	.000000
11.00%	.0000	.000000
12.00%	.0000	.000000
13.00%	.0000	.000000
14.00%	.0000	.000000

- For:
- Federal Stafford Loans (subsidized and unsubsidized) made on or after 7/1/95 but prior to 7/1/98, *only* during the in-school, grace, and deferment periods:

Applicable Annual Interest Rate	Special Allowance at Annual Rate	Special Allowance for 3-Month Period
8.25%	.0044	.001100

- For:
- Federal Stafford Loans (subsidized and unsubsidized) made on or after 7/1/98 but prior to 1/1/00, *only* during the in-school, grace, and deferment periods:

Applicable Annual Interest Rate	Special Allowance at Annual Rate	Special Allowance for 3-Month Period
7.59%	.0080	.002000

- For:
- Federal Stafford Loans (subsidized and unsubsidized) made on or after 7/1/98 but prior to 1/1/00, *except* during the in-school, grace, and deferment periods:

Applicable Annual Interest Rate	Special Allowance at Annual Rate	Special Allowance for 3-Month Period
8.19%	.0080	.002000

The average of the bond equivalent rates of the quotes of the three-month commercial paper (financial) rates in effect for each of the days in the quarter ending September 30, 2000, is 6.72 percent. Loans from the following categories are eligible for special allowance as shown for the quarter ending September 30, 2000.

For: • Federal Stafford Loans (subsidized and unsubsidized) made on or after 1/1/00 but prior to 7/1/03, <i>only</i> during the in-school, grace, and deferment periods.		
Applicable Annual Interest Rate	Special Allowance at Annual Rate	Special Allowance for 3-month Period
7.59%	.0087	.002175
For: • Federal Stafford Loans (subsidized and unsubsidized) made on or after 1/1/00 but prior to 7/1/03, <i>except</i> during the in-school, grace, and deferment periods.		
Applicable Annual Interest Rate	Special Allowance at Annual Rate	Special Allowance for 3-month Period
8.19%	.0087	.002175
For: • Federal PLUS Loans made on or after 1/1/00 but prior to 7/1/03 (special allowance shall not be paid unless the calculated interest rate exceeds the 9% cap). • Federal Consolidation Loans for applications received on or after 1/1/00 but prior to 7/1/03.		
Note: The current interest rate for Federal PLUS Loans is 8.99%. Since this rate does not exceed the 9% cap, no special allowance will be paid during the period 7/1/00 through 6/30/01.		